

CITY OF VICTORVILLE
Victorville, California

Single Audit Report on Federal Awards

Year ended June 30, 2012

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City Council
City of Victorville
Victorville, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Victorville, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Victorville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is defined to be a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Items 2012-1 and 2012-2 conform to this definition. A significant deficiency is defined to be a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Items 2012-3 and 2012-7 conform to this definition.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of material noncompliance that was required to be reported under *Government Auditing Standards*, and has been identified in the Schedule of Findings and Questioned Costs as item 2012-02.

City of Victorville's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit City of Victorville's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the City Council, management of the City of Victorville, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Meyer Hoffman McLean P.C.

Irvine, California
February 21, 2013



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditors' Report

Compliance

We have audited the compliance of the City of Victorville (City) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Victorville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City Victorville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we reported an other matter pertaining to internal control over compliance with federal programs that we have identified in the Summary of Findings and Questioned Costs as Item 2012-8.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of basic financial statements of the City of Victorville, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 21, 2013. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, City's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLam P.C.

Irvine, California
February 21, 2013

CITY OF VICTORVILLE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Program Identification Number	Federal Domestic Assistance Number	Federal Financial Assistance Expenditures
<u>U.S. Department of Commerce</u>			
Direct assistance:			
Economic Development - Support for Planning Organizations	07-49-06066	11.302	\$ 1,971,906
Total - U.S. Department of Commerce			<u>1,971,906</u>
<u>U.S. Department of Defense</u>			
Direct Assistance:			
Military Construction, National Guard - ARRA	W912LA-10-2-2105	12.400	<u>270,821</u>
Total - Department of Defense			<u>270,821</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct assistance:			
Community Development Block Grant	11-MC-06-0593	14.218	851,213
Neighborhood Stabilization Program (NSP1 Loan Expenditures)	B08-MN-06-0523	14.218	5,559,534
Neighborhood Stabilization Program (NSP1)	B08-MN-06-0523	14.218	472,313
Home Investment Partnerships Program	*	14.239	228,385
Neighborhood Stabilization Program (NSP3) - ARRA	B11-MN-06-0523	14.254	<u>620,011</u>
Total - U.S. Department of Housing and Urban Development			<u>7,731,456</u>
<u>U.S. Department of Justice</u>			
Direct Assistance:			
Youth Gang Prevention	2009-JL-FX-0144	16.544	35,925
Youth Gang Prevention	2010-JL-FX-0020	16.544	<u>12,723</u>
Subtotal			<u>48,648</u>
Passed through the County of San Bernardino:			
Edward Byrne Memorial Justice Assistance Grant Program - ARRA	06-166	16.804	<u>88,609</u>
Subtotal			<u>88,609</u>
Total - U.S. Department of Justice			<u>137,257</u>
<u>U.S. Department of Transportation</u>			
Direct Assistance:			
Federal Aviation Association:			
Airport Improvement Program	3-06-0359-15	20.106	14,910
Airport Improvement Program	3-06-0359-18	20.106	283,025
Airport Improvement Program	3-06-0359-19	20.106	<u>713,106</u>
Subtotal			<u>1,011,041</u>
Passed through the County of San Bernardino:			
Highway Planning and Construction:			
Federal Demonstration/ Highway Planning	8-1214 A/1	20.205	99,701
Federal Demonstration/ Highway Planning	DEMO4L-5380(10)	20.205	633,896
Federal Demonstration 1.2	HPLUL-5380(22)	20.205	228,980
Federal Surface Transportation	DEMO4L-5380(10)	20.205	305,209
State Transportation Improve Program (STIP)	DEMO4L-5380(10)	20.205	<u>889,639</u>
Subtotal			<u>2,157,425</u>
Total - U.S. Department of Transportation			<u>3,168,466</u>
<u>U.S. Department of Homeland Security</u>			
Direct Assistance:			
California Emergency Management Agency:			
Flood Mitigation Assistance	PA-09-CA-1884-RPA-0009	97.029	<u>37,385</u>
Total - U.S. Department of Homeland Security			<u>37,385</u>
Total Expenditures of Federal Awards			<u>\$ 13,317,291</u>

* - Not Available

CITY OF VICTORVILLE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Victorville, California ("City") that are reimbursable under federal programs of federal agencies providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency and federal funds received indirectly by the City from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal or selected state program, as required by these agencies.

(c) Subrecipients

For the fiscal year ended June 30, 2012, the City made no payments to subrecipients.

CITY OF VICTORVILLE
Schedule of Findings and Questioned Costs
(Continued)

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. Five significant deficiencies and two material weaknesses in internal control over financial reporting based upon our audit of the financial statements of the auditee were reported.
3. The audit disclosed one instance of non-compliance which is material to the financial statements of the auditee, (Schedule of Findings and Questioned Costs item 2012-02).
4. No material weaknesses or significant deficiencies in internal control over major programs of the auditee were reported. One other mater pertaining internal control over financial reporting was reported as Item 2012-8.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major programs of the auditee were the U.S. Department of Defense – Military Construction, National Guard, CFDA No. 12.400 and the Department of Housing and Urban Development cluster – Community Development Block Grants/Entitlement Grants, CFDA No. 14.218 and Neighborhood Stabilization Program (NSP3), CFDA No. 14.254.
8. The dollar threshold used to distinguish Type A and Type B programs was \$399,519.
9. The auditee did not meet the criteria to be classified as a low risk auditee for the year ended June 30, 2012, for purposes of major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

2012-01 Adjusting Journal Entries

Auditing standards require that we communicate to you adjustments that were made as a part of the audit process. Accordingly, the following adjustments were made as part of the audit process:

- An adjustment of \$304,499 to accrue year end payroll expenses
- An adjustment of \$190,300 to record revenue for connection fees that had been incorrectly deferred
- A prior period adjustment of \$742,972 to record Solid Waste Disposal costs incurred in prior fiscal years
- An adjustment of \$592,540 to record a liability due to PERS regarding the City's former Safety Employees.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

Recommendation

The City should take necessary measures to ensure that all adjustments required by GAAP are identified and posted prior to the commencement of the audit.

Management's Response

The problems encountered as a result of a conversion to a new financial software system has been substantial. Finance staff is working diligently to ensure problems are resolved quickly and efficiently and many of the initial problems have been corrected. Finance staff will also be working closely with the other departments to ensure material journal entries have been made prior to start of audit.

2012-02 Pledge Revenue Shortfall

During the fiscal year ended June 30, 2012, the SCLAA pledged revenues for bonded debt fell below the amounts required by bond covenants. Additionally bond reserve accounts for the Tax Allocation Revenue Parity Bonds (Taxable Series 2006, and Forward Series 2006) fell below the amounts required by bond covenants.

Recommendation

We recommend that the City continue its efforts to closely monitor the sufficiency of pledged revenues and reserve requirements with respect to airport authority bonds.

Management's Response

There has been a significant decrease in assessed value for the Victor Valley Redevelopment Project Area. The decrease in value from 2008-2009 is largely the result of the recent economic downturn. The Original Area, Amendment IV, and the Amendment VIII areas saw specific reductions in value of \$1.8 billion, 18.1 million and \$1.1 billion, respectively. From the Continuing Disclosure Report for Southern California Logistics Airport Authority dated February 2, 2013, pledged tax increment revenue will not exceed total debt service obligations for non-housing and housing bonds until fiscal year 2016-2017.

2012-03 Fund Balances in Funds Primarily Funded With Grant Revenues

Certain funds of the City that are primarily funded by grant revenues have either a deficit in fund balance or an accumulation of unexpended grant funds. Ordinarily, in grant funds, grant revenues are recognized in amounts equal to reimbursable expenditures incurred, resulting in a minimal fund balance.

Recommendation

We recommend that the City analyze these funds to evaluate the cause of the fund balance. If fund deficits are due to unreimbursable expenditures, appropriate transfers should be recorded to recognize the subsidy by other funds of the City for these unreimbursed costs. Material surpluses in these funds should be evaluated to ensure that all reimbursable costs have been properly recognized in the appropriate grant funds.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

Management's Response

The City will analyze the Grant Funds to evaluate the fund balance during each fiscal year. The funds will be evaluated in respect to materials amounts that should be either categorized as Grants Receivable or expenditures amounts that will not be reimbursed by the Grant Sponsor. Any issues with unreimbursable expenditures will be evaluated and corrected with transfers within that fiscal year.

The grants which were showing a deficit were primarily in Engineering and Community Development (EDD). In working with the community development staff, these discrepancies are being taken care of in FY13. The Engineering deficit was primarily two projects – Nisqualli Interchange and High Desert Corridor and resulted from several reimbursement request issues with Caltrans and the outside Engineering Consultant. These issues are being resolved in FY13.

2012-04 Interfund Borrowings

Certain interfund borrowings were not formally approved by City Council. The Landscape Maintenance and Drainage Facilities Assessment District, and the Solid Waste Management Funds have advanced amounts of cash to the Southern California Logistics Airport Authority. Additionally, an interfund loan from the Development Impact Facilities (DIF) Road Service Fund to the DIF Fire Service Fund was required to have been paid in full by June 30, 2012, however a balance of \$1,049,590 remained at year end.

Recommendations

We recommend City Council formally approve all interfund advances and that the Finance Department ensure that all interfund advances are paid in full as outlined in the loan agreement or obtain City Council approval for an extension prior to the loan maturity.

Management's Response

Management will be bringing to City Council an extension of the loan between the Road Development Impact Facilities (DIF) and the Fire Service DIF. Unfortunately, because of the downturn in the construction industry, this loan has taken longer than anticipated to repay. However, about 50% of the original loan has been repaid.

If possible during FY 12-13, management will bring forward proposals to the City Council to formalize the remaining significant borrowing from SCLA.

2012-05 Bank Reconciliation

During the fiscal year ended June 30, 2012, the City had not been performing its monthly general ledger cash reconciliations on a timely basis. Additionally, the City's year end bank reconciliation included checks that had been outstanding for several years and which according to the City policy should be written off after 120 days.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

Recommendation

We recommend that the City perform its general ledger cash reconciliations within 60 days of month end, whenever possible. This process should include a review by management in the Finance Department. The City should also ensure that the City follow its policy with regard to stale dated checks.

Management's Response

During FY 11-12, the Finance Department underwent a conversion to a new financial software system, which involved accounts payable division, purchasing division, cashiering division and the general ledger division. Because of the extensive nature of this implementation, bank reconciliations were not performed within 60 days of month end. During FY 12-13, management will reach the goal of performing the bank reconciliation within 60 days of month end.

The City has followed its policy with regard to stale dated checks within the accounts payable division. The City will ensure following the policy with both accounts payable and payroll checks within FY 12-13.

2012-06 Vacation Leave Policy

There is currently an inconsistency between the City's formal Vacation Leave Policy and its actual practice with respect to such balances. As a matter of practice, the City typically pays vacation leave balances in excess of certain limits set forth in the City's Vacation Leave Policy.

Recommendation

We recommend that the City change its practice or amend its Vacation Leave Policy to more accurately reflect its intentions with regard to limits relating to this benefit.

Management's Response

The City has not followed the Vacation Leave Policy as it relates to the Maximum Vacation Accrual Hours as listed in Resolution 12-061. Because of the large layoffs the City encountered at the end of FY 08-09, the City was unable to force employees to take vacations as this would have resulted in a need to hire additional help. Another contributing factor was the cash shortage the City was experiencing. Therefore, the need to pay employees the vacation hours over and above the maximum vacation accrual hours became prohibitive. During Fiscal Year 12-13, the City will encourage employees over their maximum to either take vacation or cash out hours. Therefore, by year end 6-30-2013, the City can enforce its Vacation Leave Policy.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

2012-07 Financial Reporting to City Council

The Finance Department does not regularly present summarized financial analysis to the City Council to aid in its stewardship of the City. The City Council is charged with governance of the City of Victorville and in order to fulfill its responsibilities over City finances, it is important for the City Council to review high level information pertaining to the City's financial status on a regular basis.

Recommendation

We recommend that the Finance Department prepare a monthly or quarterly financial status analysis for presentation to the City Council.

Management's Response

The Finance Department understands the need of the City Council to review high level information pertaining to the City's financial status on a regular basis. The Finance Department has been extremely involved in the conversion of its financial reporting system and has also lost a key employee who was responsible to provide quarterly financial status reports. During FY 12-13, the Finance Department will again be dedicated to providing a Quarterly Financial Status Report along with a Budget to Actual Report to all Council members.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

No findings or questioned costs required to be reported in accordance with paragraph .510(a) of OMB Circular A-133 were reported. However, we identified the following other matter that pertains to internal controls over financial reporting:

2012-08 Employee Timesheets

In accordance with federal regulations, employee timesheets identify time charged to each program and are signed by the employee. In certain cases, the time charged is based upon a pre-set allocation of that employee's salary, the accuracy to which is attested to when the employee signs his or her time sheet.

OMB Circular A-87, Attachment B, paragraph 8(h)(5)(a) states that "Personnel activity reports must reflect an after-the-fact-distribution of the actual activity of each employee".

Recommendation

To ensure that the employee understands that his or her signature certifies that the time indicated does, in fact, conform to his or her actual time expended on each program, the City may want to consider adding language below the signature line of the employee with wording similar to the following:

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

My signature above indicates that I have reviewed the time distribution indicated on this time sheet and acknowledge that it substantially conforms to the actual distribution of my time for this pay period.

Management's Response

The City will include on employee time cards the language suggested above.

CITY OF VICTORVILLE

Summary Schedule of Prior Audit Findings

Year ended June 30, 2012

(A) Summary of Prior Audit Findings and Current Status

All of the following audit findings from the Year ended June 30, 2011 are considered resolved with the exception of 2011-06, 2011-07, and 2011-08, which have been repeated in the Schedule of Findings and Questioned Costs.

2011-01 Adjustment to Loans Receivable

On July 21, 2009, City Council approved a loan of \$6,906,148 between the Southern California Logistics Airport Authority (SCLAA), and the Agency's Portion of VVEDA's 20% Low and Moderate Income Housing Fund. After consultation with certain members of the City's independent audit firm, this transaction was booked between two Low and Moderate Housing Income Funds - Bear Valley and Old Town and Agency's Portion of VVEDA's 20%.

2011-02 Adjustment to Redevelopment Agency Land

The City reported two properties in its General Fixed Asset Account Group for which title was held by the Redevelopment Agency. This resulted in the Prior Period Adjustment to increase Land reported in the Redevelopment Agency Financial Statements by \$3,717,395.

2011-03 To record Allowance for Doubtful Accounts

Prior to the creation of the Regional Center of Victorville Development (RCVD), the Redevelopment Agency had incurred \$824,855 in costs associated with start-up costs of the EB-5 program. The RCVD agreed to repay these funds to the RDA, with interest, however during the year the City decided to abandon the EB-5 program and suspend all activity of the RCVD agency. This resulted in an adjustment to record Allowance for Doubtful accounts up to the full amount of the loan, or \$253,949.

2011-04 Adjustment to Remove Loan Receivable and Due from Other Governments

The Redevelopment Agency has an agreement with the County of San Bernardino to administer a loan program with Housing Development contractors whereby the City will reimburse developers for costs incurred, which are then reimbursed to the City by the County. The City had recorded a receivable due from the County of San Bernardino and a loan payable to Developers for transactions occurring after year end. GAAP provides that loan transactions be recognized when executed. This resulted in an adjustment of \$691,006 to Due from other Governments and Loans Payable.

2011-05 Adjustment to Record Payable to the US Department of Treasury

As the result of unfavorable litigation settlement the City was required to remit a payment to the US Department of Treasury in September 2011 for the purchase of the George Air Force Base. This transaction was not recorded as a payable at year end and thus resulted in an adjustment to record the payable to the US Department of Treasury for \$350,000.

CITY OF VICTORVILLE

Summary Schedule of Prior Audit Findings

Year ended June 30, 2012

2011-06 Fund Balances in Funds Primarily Funded With Grant Revenues

Certain funds of the City that are primarily funded by grant revenues have either a deficit in fund balance or an accumulation of unexpended grant funds. Ordinarily, in grant funds, grant revenues are recognized in amounts equal to reimbursable expenditures incurred, resulting in a minimal fund balance.

2011-07 Formal Approval of Interfund Borrowings

Certain interfund borrowings were not formally approved by City Council. The General Fund, Municipal Utility, and Wastewater have advanced amounts of cash to the Southern California Logistics Airport Authority.

2011-08 Pledge Revenue Shortfall

During the fiscal year ended June 30, 2011, the SCLAA pledged revenues for bonded debt fell below the amounts required by bond covenants.